

# » Go Global to Grow

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**A**re you focussing on expanding internationally? If not, you may be missing the best opportunity for growth in the current economic climate. British firms doing well at the moment tend to be those that are doing business globally.

There are a number of very good reasons to focus on expanding abroad. The domestic market is stagnant, with little or no economic growth on the horizon. British consumers, many on frozen public sector salaries, are increasingly cash-strapped as they pay higher food, transport and energy bills. The UK economy may be in for a long period of low growth. →



Contrast this with the developing world where economic growth has continued unhindered and demand for consumer goods and services has been boosted further by a fast-emerging middle class. The BRICs (Brazil, Russia, India and China) are leading the charge.

In 2007, Goldman Sachs predicted that by 2030 China will have displaced the USA as the world's largest economy (see figure 1). By 2050 India will be in third place, just behind the USA, followed by Brazil, Mexico, Russia and Indonesia.

By the middle of this century, these emerging economies will overtake Japan, the UK and Germany. Other economies that are expected to grow rapidly are Nigeria, Egypt, Turkey, Iran, Pakistan, Bangladesh, Vietnam, the Philippines and Korea. Economic growth on this scale will boost sales for firms successfully doing business in those markets.

#### SMEs are going global

It is becoming easier for Small and Medium Sized Enterprises (SMEs) to expand globally. Many are now being *born global* - established as small businesses that sell directly to people anywhere in the world. Many existing SMEs around the world are planning to become more globalised.

According to the HSBC Global Small Business Confidence Monitor (a survey of over 6000 small businesses in 21 countries) 29% of the world's SMEs trade internationally, and 40% say they intend to be trading internationally by 2013.

British entrepreneurs have some catching up to do. In the same survey, only 20% of Britain's SMEs were found to be trading internationally. However, there are signs that this is changing. HSBC reports healthy increases in export lending to UK firms, which are rapidly growing their exports to emerging economies in Asia, the Middle East and Africa.

The big growth opportunity for many UK firms lies in finding an entry into the emerging economies and providing their consumers with the more sophisticated goods and services that they increasingly demand. International expansion is an attractive growth strategy because it allows companies to grow their business rapidly while continuing to concentrate on what they do best, instead of trying to do something they know very little about. It often makes more sense to expand globally than to diversify in a local market and risk a loss of focus.

Business owners face a series of strategic choices as they consider global expansion. They must decide which markets to enter, and what mode of entry to employ in each of them. Will they deal directly with end-users of their products and services or will they involve agents, distributors, partners or other intermediaries in foreign markets?

#### Go online

SMEs can use international distribution and fulfilment services to directly supply end-users of their products, almost anywhere in the world. International customers can buy their offerings online or through an intermediary such as eBay or a television shopping network. A global SME might source goods from China using online services such as Alibaba.com, then sell them through its own website and then have the fulfilment managed by Amazon. The owners of successful automated global SMEs are making money while they sleep.

The key to making this sort of business model sustainable is to add something special along the way that customers will value, such as design flair or technical expertise. An example of this is a small jewellery designer in Derby that buys beads from China, and assembles them into attractive and unique jewellery to sell online.

#### Make and export

Any business that enjoys a product or service niche in its home market should investigate ways to exploit that niche globally. It could provide the opportunity to boost production and make much more profit from existing investment in factories, equipment and knowledge. For example, thirty moulding machines at Numatic International in Somerset work 24/7 to supply British-made vacuum cleaners to a global market.

While exporting locally manufactured goods creates employment in Britain and brings a better return on investments, the challenges of exporting British made goods include high transport costs, trade barriers and dealing with local agents.

#### Set up a subsidiary

Establishing a wholly-owned subsidiary in a foreign market enables a business to get close to its offshore markets, cut transport costs and engage in global strategic coordination. By retaining full control, technology and knowledge can be protected. The disadvantage of this approach is that it usually represents a large and risky investment in a foreign market.

#### Find a partner

Licensing and franchising enables firms to expand globally without the development costs. A joint venture provides an opportunity to share development costs and risks with a local partner. It can help overcome political and economic barriers to market entry and in markets such as China is often the only option for a foreign firm.

The disadvantages of partnership approaches can include a loss of control over quality and the ability to coordinate manufacturing globally.

The possible downside of shifting production offshore is the loss of ability to exploit economies of location and experience.

#### Turn-key projects

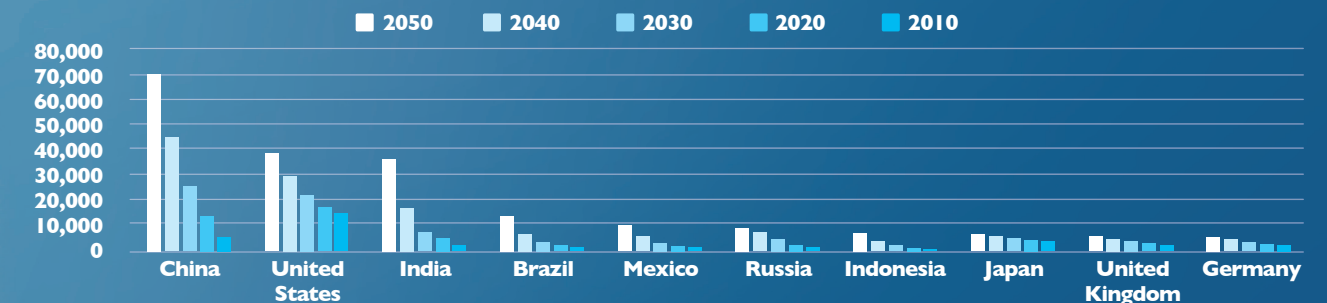
Firms with innovative technology are in demand in developing markets and should consider exporting their know-how in the form of a turn-key project. Such projects can enable opportunities to enter markets where foreign direct investment is restricted. The downside of this approach is that there may be no long-term presence in that market, and the firm may have created an efficient international competitor.

#### Go global to grow

Of course, deciding on a sound strategy for entering international markets is only the start. Global entrepreneurs still have to wrestle with international finance, accounting, HR and marketing. They must contend with the more complex cultural, political and economic issues that will affect their global business. It may not always be an easy road, but export-led growth could provide the road to recovery for the UK economy, and may be the path to future growth for your business. MF

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Figure 1 - The ten largest economies in the world in 2050, measured in GDP nominal (millions of USD).



Source: Goldman Sachs Economic Research 2007